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SUBJECT:(ISRAEL-- A HARD YEAR ENDS, A TOUGHER ONE BEGINS

SUMMARY: FOR ISRAEL 1975 BEGINS IN INEVITABLY SOMBRE MOOD.
DOMINANT ISSUE REAMINS PROSPECT OF WAR OR PEACE, BUT DEEPER
UNDERLYING QUESTIONS ARE WHETHER POLITICAL AND ECONOMIC
DYNAMICS OF ARAB WORLD EVER WILL PERMIT ARABS TO COME TO
TERMS WITH ISRAEL'S LGITIMACY AND EXISITENCE, AND WHETHER
ISRAELIS ARE ABLE TO COMPROMIE SUFFICIENTLY TO SUSTAIN
SUCCESSFUL NEGOTIATIONS. IN IMMEDIATE FUTURE, ISRAELIS ARE
AWARE THAT THEY FACE PLETHORA OF POLTICIAL, MILITARY AND
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ECONOMIC PROBLEMS WHICH EFY QUICK SOLUTIONS AND, IN ANY
CASE, CANNOT BE RESOLVED SOLEY BY THEIR OWN ACTIONS, MOST
AGREE WITH PRIME MINISTER' JUDGMENT THAT COUNTRY IS AT
BEGINNING OF " SEVEN LEAN YEARS". AFTER EUPHORIA AND

PROSPERITY OF 1967-1973 PERIOD, COUNTRY IS IN THROES OF HARD AND DIFFICULT ADJUSTMENT TO POSTWAR REALITIES. END SUMMARY.

1. ISRAEL FACES 1975 IN SUBDUED AND SOMBRE MOOD, HOPING FOR RENEWD MOMENTUM IN SEARCH FOR NEGOTIATED SETTLEMENTS OF ARAB-ISRAELI DISPUTE BU DEEPLY AWARE OF POSSIBILITY OF FIFTH ARAB-ISRAELI WAR. MOST ISRAELIS ARE FATALISTIC ABOUT INEVITABILLY OF ANOTHE WA SOONER OR LATER, CONVINCED THAT ROOT OF ARAB-ISRALI CONFLICT EMAINS UNWILLINGENSS OF ARAB STATES TO COME TO TERMS WITH LEGITIMACY AND PERMANENCE OF ISRAEL'S EXISITENCS AS SOVEREIGN STATE. THEIR PESSIMISM IS REINFORCED BY PRVASIVE SENSE OF ISOLATION IN HOSTIEL OR INDIFFERENT WORLD.

2. IN RETROSPECT ISRAELIS, AFTE SHOCK OF OCTOBER WAR, LOOK BACK ON FIRT HALF OF 1974 AS CONSTRUCTIVE PHSE IN FOREIGN POLICY AND DMESTIC AREAS. ACHIEVEMENT OF DISENGAGEMENTS AGREEMENTS WITH EGYPT AND SYRIA UNDER US AUSPICES RAISED EXPECTATION OF CONTINUED MOVEMENT TOWARE NEGOTIATED SETTLEMENTS. TRANSFER OF PWOER FROM OLD GUARD (MRS MEIR, DAYAN, SAPIR AND EBAN) TO NEW LEADERSHIP GROUP LED BY YITZHAK RABIN REPRSENTED MORE THAN ROUTINE CHANGE OF COMMAND. IT SEEMED TO SYMPOBILZE COMINGOF AGE OF AUTHENTICIALLY ISRAELI GENERATION FOR WHOM EASTERN EUROPEAN GHETTOS AND HOLOCAUSE WOULD BE IMPORTANT HISTORICAL EVENTS RATER THAN SEARING PERSONAL MEMORIES, THUS HOPEFULLY CAPABLE OF FORMULATING MORE FLEXIBLE AND PRAGMATIC POLICIES THAN ITS PREDECESSOR.

3. SECOND HALF OF 1974, IN CONTRAST, WAS SEEN BY ISRAELIS AS PERIOD OF SLOWDOWN IF NOT VIRTUAL STALEMATE ON NEGOTIATIN FRONT, AND OF ARAB POLITICALCONSOLIDATION FOR CONTINUED CONFRONTATION WITH ISRAEL IN 1975. RABAT SUMMIT CONFERENCE DECISINRECOGNIZING PLO AS SOLE REPRESENTATIVE OF PALESTINANS, ARAFAT'S UN APPERANCE AND FAHMY'S STATMENT ON PROHIBITING IMMIGRATION FOR FIFTY YEARS STAND OUT AS HIGHLIGHTS OF THIS PROCESS.
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4. ISRAEL-US RELATIONS, ISRAEL'S VIRTUALLY TOTAL DEPENDENCE ON US CONSTITUTES COMPLICATED POLITICAL AND PSYCHOLOGICAL REALITY FOR ISRAELIS. ON ONE HAND, THEY REAMIN GRETEFUL FOR US POLITICAL, MILITARY AND ECONOMIC SUPPORT, AND RECONGINZE CENTRALITY OF US FOR NEGOTIAING PROCESS TO WHICH THEY ARE PUBLICLY COMMITTED. ON OTHER HAND, DOUBTS ARE EXPRESSED ABOUT WASHINGTON'S INTENTIONS. ISRAELIS FEAR THAT US INTERESTS IN ARAB WORLD, CONERN FOR POSSIBLE IMPLICATION OF NEW ARE AND PROBABLE OIL BOYCOTT ON EUROPEAN POLITICAL AND ECONOMIC STABILITY, AND COMMITMENT TO US-USSR DETENTE MAY GENERATE STRONG AMERICAN PRESSURES FOR TERRITORIAL CONCESSIONS DETRIMENTAL TO ISRAEL'S "VITAL SECURITY INTERESTS."

5. SOVIET MIDEAST ROEL. ISRAELIS CONTINUE TO VIEW SOVIET ACTIVITY IN MIDEAST AS THREAT TO ISRAELI INTERESTS AND TO PEACE PROSPECTS. THEY SEE SOVIETS AS MAIN ARMS SUPPLIER FOR ARABS AND AS MOVING FORCE FOR EARLY CONVOCAION OF GENEVA CONFERENCE, INCLUDING SOME FORM OF PLO PARTICIPATION. ISRAELIS ARE PARTICULARLY WORRIED ABOUT IMPLICATIONS OF PRESENT NEGOTIATIONS WITH USSR, WHICH THEY BELIEVE MAY LEAD TO RENEWED SOVIET-EGYPTIAN RAPPROACHMENT, BUILD-UP OF EGYPT'S MILITARY ARSENAL, AND FURTHER CONSTRAINTS ON US MANEUVERABILITY TOWARD SECOND-STAGE ISRAELI EGYPTIAN NEGOTIATED POLITICAL SETTLEMENT.

6. ARAB WAR OPTION, ISRAELIS BELIEVE THAT ARAB STATES HAVE AND MAY CHOOSE TO EXERCISE WAR OPTION SOMETIME IN 1975. THEY REGARD ARABS AS INTOXICATED BY POLITICAL-MILITARY "SUCCESS" OF OCTOBER 1973 WAR, CONSCIOUS OF THEIR ECONOMIC POLITICAL LEVERAGE AND CONVINCED THAT TIME IS RUNNING ON ARAB SIDE. ISRAELIS COMMENTATORS HAVE NOTED THE IDF NOW IS AT OR NEAR OPTIMUM CONDITION FOR RENEWED HOSTILITIES, AND THAT PASSAGE OF TIME WILL NARROW GAP BETWEEN CAPABILITIES OF TWO SIDES. RIGHTWING, HARDLINE ELEMENTS OF ISRAELI PUBLIC DOUBTLESS FAVOR PREEMPTIVE STRIKE AT APPROPRIATE RELATIVELY EARLY OPPORTUNITY, WHILE MORE MODERATE ELEMENTS ARE AWARE OF DANGEROUS IMPLICATIONS FOR ISRAEL-US RELATIONS AND ISRAEL'S WORLD IMAGE. RABIN ALSO HAS MADE POINT THAT THERE IS NO MILITARY SOLUTION TO ARAB-ISRAELI CONFLICT, ALTHOUGH EVEN HE APPARENTLY CONFIDENTIAL

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BELIEVES THAT WAR IS PROBABLE. REPORTEDLY, HIS "SEVEN LEAN YEARS" PREDICTS WAR FROM WHICH ISRAEL WOULD EMERGE IN SOMEWHAT STRENGTHENED STRATEGIC MILITARY POSITION.

7. TERRORISM. AFTER SEVERAL YEARS IN WHICH PALESTINIAN TERRORISM HAD CONCENTRATED ON AIRPLANE HIJACKINGS, AIRPORT ATTACKS AND INCIDENTS OUTSIDE OF ISRAEL, 1974 WILL BE RECALLED AS YEAR IN WHICH TERRORISTS REPEATEDLY PENETRATED INTO ISRAEL, ATTACKING FRONTIER SETTLEMENTS, DEVELOPMENT TOWNS AND IN DECEMBER DOWNTOWN TEL AVIV AND JERUSALEM. IN TURN IDF HAS INTENSIFIED ITS REPRISAL ACTIVITIES IN SOUTHERN LEBANON, BORDER FORTIFICATIONS HAVE BEEN IMPROVED AND CIVIL GUARD HAS BEEN CREATED TO PATROL SCHOOLS AND OTHER PUBLIC LOCATIONS. ONLY BRIGHT NOTE FROM ISRAELI VIEWPOINT IS CESSATION OF TERRORIST INCURSIONS ACROSS SYRIAN BORDER IN AFTERMATH OF SYRIAN-ISRAELI DISENGAGEMENT AGREEMENT, AND RELATIVE QUIET ON LONG ISRAELI-JORDANIAN BORDER. HOWEVER, ISRAELIS EXPECT THAT TERRORISM IS LIKELY TO CONTINUE AND POSSIBLY INTENSIFY IN 1975.

8. PALESTINIANS AND THE WEST BANK. MOST DISTURBING ASPECT OF 1974 FOR MOST ISRAELIS WAS ACHIEVEMENT OF PLO IN GAINING

RECOGNITION BOTH WITHIN ARAB WORLD AND AT UN AS SOLE REPRESENTATIVE OF PALESTINIANS. MANY ISRAELIS BELIEVE THAT GOI MISSED OPPORTUNITY TO NEGOTIATE INTERIM SETTLEMENT WITH HUSSEIN THIS SUMMER, AND DOUBT THAT COMPARABLE OPPORTUNITY IS LIKELY TO RECUR SOON. THEY ARE ALSO SKEPTICAL OF PROSPECTS FOR DEVELOPMENT OF INDIGENOUS WEST BANK LEADERSHIP WHICH GOI LEADERSHIP PRESENTLY IS OFFERING UP AS ALTERNATIVE TO DEALING WITH PLO. IN EFFECT, ISRAELIS SEE THEMSELVES BOXED INTO TIGHT CORNER ON PLO ISSUE, UNWILLING TO NEGOTIATE WITH TERRORISTS WHOM THEY PERCEIVE AS COMMITTED TO DESTRUCTION OF JEWISH STATE BUT AWARE THAT EFFORT TO MAINTAIN STATUS QUO ON WEST BANK IS RUNNING AGAINST TIDE OF HISTORY. PRIVATELY ISRAELIS ARE GRATEFUL TO ARAFAT FOR COMING ACROSS A UN AS EXTREMIST AND ARE AWARE THAT ARAFAT COULD HAVE GENERATED INTENSE PRESSURES ON GOI HAD HE MADE MODERATE PRESENTATION INDICATING READINESS TO COEXIST WITH ISRAEL.

9. ECONOMIC DEVELOPMENTS DURING YEAR REINFORCED ISRAELI
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PERCEPTION THAT EVENTS MIGHT BE SLIPPING BEYOND THEIR CONTROL. WHILE PRIVATE CONSUMPTION AND GNP GREW BY ALMOST FIVE PERCENT IN REAL TERMS, INFLATION SOARED, FOREIGN EXCHANGE RESERVES DROPPED BY ALMOST ONE HALF AS BALANCE OF PAYMENTS DEFICIT ROSE TO \$3.5 BILLION. SEVERE DROP IN TOURISM ADDED TO PROBLEM. THUS GOVERNMENT WAS COMPELLED IN NOVEMBER TO TAKE DRASTIC STEPS TO REDUCE SPENDING AND CONSERVE FOREIGN EXCHANGE. WHILE EVEN STRONGER ACTION WAS ADVOCATED BY SOME TO STEM INFLATION, GOVERNMENT WAS RESTRAINED BY FEAR OF UNEMPLOYMENT AND NEED TO PROVIDE ATTRACTIVE LIVELIHOOD FOR NEW IMMIGRANTS. LARGEST ELEMENT IN ISRAEL'S ENORMOUS IMPORT BILL IS MILITARY AND INCREASINGLY US IS RELIED UPON TO FINANCE THESE IMPORTS. FUNDING OF MILITARY PURCHASE WILL BE ONE OF MOST CRITICAL ISSUES IN US/ISRAEL RELATIONS IN COMING YEARS.

10. GIVEN MAGNITUDE OF PROBLEMS CONFRONTING NATION, ISRAELIS HAD HOPED THAT NEW GOVERNMENT WOULD GIVE THEM RENEWED SENSE OF CONFIDENCE AND PERHAPS EVEN FIND SOME FRESH APPROACH. WE BELIEVE THAT RABIN ON BALANCE HAS DONE GOOD JOB IN FIRST SEVEN MONTHS IN OFFICE BUT ISRAELIS THEMSELVES HAVE MIXED JUDGMENTS. WE HAVE NOTED IN SOME CIRCLES SENSE OF DISAPPOINTMENT, PARTICULARLY THAT RABIN AND HIS ASSOCIATES SEEM TO BE PURSUING SAME FOREIGN POLICY LINES AS PREVIOUS MEIR GOVERNMENTS. SOME BELIEVE RABIN HIMSELF WOULD BE INCLINED TO SHOW GREATER FLEXIBILITY ON TERRITORIAL ISSUES BUT IS RELUCTANT TO INCUR WRATH OF MRS MEIR AND DAYAN, AND JEOPARDIZE HIS COALITION. MODERATE ISRAELIS ALSO HAD HOPE FOR NEW APPROACH TO PALESTINIAN QUESTION.

11. IN ADDITION, RABIN HIMSELF IS REGARDED AS UNCHARISMATIC, AND CRITICIZED FOR SPEAKING TOO MUCH. CABINET IS SEEN AS COLORLESS AND LACKLUSTER, ALTHOUGH THERE IS NO NOSTALGIA FOR

MEIR GOVERNMENT (SAPEI AND EBAN ARE PARTICULARLY OUT OF FAVOR AT MOMENT, FORMER FOR POSSIBLE INVOLVEMENT IN SCANDALS AND LATTER FOR ABSENTING HIMSELF FOR TWO MONTHS FROM KNESSET TO TEQCH AT COLUMBIA).

12. SOME ISRAELIS BELIEVE THAT NATIONAL UNITY GOVERNMENT INCLUDING RIGHTWING OPPOSITION LIKUD IS ONLY ANSWER. HOWEVER, DOMINANT VIEW HERE IS THAT CURRENT GOVERNMENT COALITION IS IN NO IMMINENT DANGER, AND THAT UNITY GOVERNMENT OPTION WILL
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ARISE IN EVENT OF SHARP DETERIORATION IN POLITICAL OR MILITARY SITUATION, INERTIAL FORCES OF ISRAELI POLITICS, CONTINUED DOMINANCE OF LABOR PARTY AND INABILITY OF LIKUD TO CONVINCE ISRAELIS THAT IT CONSTITUTES SERIOUS ALTERNATIVE OPERATE IN RABIN'S FAVOR.

13. IN SUM, ISRAELIS FACE 1975 TROUBLED AND WITH A FEELING OF EVENTS CLOSING IN ABOUT THEM, YET DETERMINED TO ENDURE. MORE THAN EVER BEFORE THEY MUST RELY ON US FOR POLITICAL, ECONOMIC AND MILITARY SUPPORT, SHILE AT SAME TIME THERE IS GROWING REALIZATION THAT ISRAELI AND US INTERESTS DO NOT ALWAYS COINCIDE. ON ALL IMPORTANT TERRITORIAL ISSUES, RABIN GOVERNMENT IS ONLY SLIGHTLY LESS UNYIELDING THAN PREVIOUS ISRAELI GOVERNMENTS, BUT NEVERTHELESS IS COMMITTED TO NEGOTIATING PROCESS. OUT RAKS IS TO PROVIDE CATALYST AND TO ENCOURAGE SPIRIT OF COMPROMISE IN SUPPORT OF THIS PROCESS.
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